Lecture 1:

An Introduction to (Intermediate) Macroeconomics
ECON 202
What is macroeconomics?

Macroeconomics is the study of the *collected behavior* of economic agents. It focuses on the *aggregate* behavior of consumers and firms, the behavior of governments, the overall level of economic activity, the economic interactions among nations, and the effects of fiscal and monetary policy.

Macroeconomics versus microeconomics =
Aggregate versus individual decision-making
What are the main research questions in Macroeconomics?

- Business cycles (short-run changes in aggregate economic activity)
- Economic growth (long-run changes in aggregate economic activity)
- Inflation
- Unemployment
- International Macroeconomics
Gross National Product (GNP)

Gross National Product is a measure of economic activity. It is the (real) value of goods and services produced by a country’s residents during some specified period of time (=output produced by domestic factors of production).
Gross Domestic Product per capita (GDP/C)

GDP Per capita, $ in 2000 Constant Prices

$ in 2000 Constant Prices

Years


1980 Coup d’état

1994 crisis

2001 crisis

Turkey
Gross Domestic Product per capita (GDP/C)

GDP Per capita, $ in 2000 Constant Prices

Years

Turkey
U.S.
Growth Performance of Turkey
Growth Rates, US versus Turkey

Consumption
Investment
Investments per capita, $ in 2000

Year

$
Openness
Business Cycles of Turkey
Decomposing time series data into trend and cycle components
Turkish GDP and Trend

Years

Trend, Log(GDP)


GDP
Trend
Unemployment in Turkey
Total Unemployment (000)

Source: TUIK
Source: TUIK
Young Unemployed: Average $\rightarrow$ 17.6%

Urban $\rightarrow$ 23%

Uneducated: 3.6%

Secondary School 8.1%

Tertiary School 12.6%

Higher-education 10.8%
Inflation in Turkey
Fiyat Endeksi (Toptan Eşya) (1968=100) (İTO) (Aylık)
Fiyat Endeksi (Toptan Eşya) (1968=100) (İTO) (Yıllık Enflasyon)
Some Other Macroeconomic Facts of Turkey
İmalat Sanayi-Üretimde Çalışan Kişi Başına Emek Verimliliği Endeksi (1997=100)
Konsolide Bütçe Gerçekleşmeleri (Kümülatif)-Yeni Tanım (Hazine) (Aylık, Bin YTL)
Mevduat Faiz Oranları (Aylık)
Macroeconomics versus Microeconomics

Modern approach:
Macroeconomics is based on microeconomic foundations (back to the classical school)

Macroeconomic models—tools of experiment
They allow economists to capture the essential features of the world for analyzing a particular economic problem.
Elements of Macroeconomic Models

Consumers (preferences)
Firms (production)

Optimization → do the best that you can do given your constraints
Equilibrium → Your best and others best match.
Market solution → No ruler
(Competitive Equilibrium)
Disagreement in Macroeconomics

Keynesians vs. Neo-classicals

- Government Intervention
- Keynesian Coordination Failure
- Money Surprise Theory
- Real Business Cycle
Some Important Findings of Macroeconomics

- Improvements in standards of living is a long run issue and its main source is technological change
- A tax cut is not a free lunch
- Expectations are important
- Changes in the quantity of money does not affect real variables in the long run
- There are many sources of Business Cycles
2040
### The Global Distribution of Gross Domestic Product (GDP) in 2000, by Grouping of Nations

<table>
<thead>
<tr>
<th>Grouping</th>
<th>Population (in millions)</th>
<th>Percent of total</th>
<th>GDP in billions of $ (PPP)</th>
<th>Percent of total</th>
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</thead>
<tbody>
<tr>
<td>United States</td>
<td>282</td>
<td>5</td>
<td>9,601</td>
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<tr>
<td>European Union (EU 15)</td>
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<td>Japan</td>
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<td>3,456</td>
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<td>6 South East Asian Countries (SE6)</td>
<td>381</td>
<td>6</td>
<td>2,552</td>
<td>6</td>
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<tr>
<td><strong>Subtotals</strong></td>
<td><strong>3,540</strong></td>
<td><strong>58</strong></td>
<td><strong>32,199</strong></td>
<td><strong>73</strong></td>
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<tr>
<td>Rest of the World</td>
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<td>World</td>
<td>6,086</td>
<td>99*</td>
<td>44,506</td>
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The Global Distribution of Gross Domestic Product (GDP) in 2040, by Grouping of Nations

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<thead>
<tr>
<th>Grouping</th>
<th>Population (in millions)</th>
<th>Percent of total</th>
<th>GDP in billions of $ (PPP)</th>
<th>Percent of total</th>
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<tr>
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<td>India</td>
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<td>Subtotals</td>
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Invest in China and India!